Ports in Canada:
future competitiveness

Background Paper

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PORTS IN CANADA: FUTURE COMPETITIVENESS

John Christopher
Science and Technology Division

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TABLE OF CONTENTS

PAGE

CANADA

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PORTS IN CANADA: FUTURE COMPETITIVENESS

INTRODUCTION

The Canadian ports system is composed of three types of ports and harbour facilities, all with different administrative and jurisdictional structures. The first, and major, category, which comprises nearly half of the overall Canadian port traffic, is administered by the Canada Ports Corporation (CPC), a Crown corporation established pursuant to the *Canada Ports Corporation Act*, proclaimed in 1983. Seven of the ports included are autonomous Local Port Corporations (LPCs) located at St. John's, Halifax, Saint John, Quebec, Montreal, Vancouver and Prince Rupert. The CPC also has managerial and operational jurisdiction over "divisional" ports, located at Belledune, Chicoutimi, Baie des Ha! Ha!, Sept-Îles, Trois-Rivières, Prescott, Port Colburne and Churchill. The mission statement of the CPC is: to maintain and promote the role of the Ports Canada system of ports, nationally and internationally, by ensuring the integrity and efficiency of the national ports system with regard to local, regional, and national economies and the environment, and in the pursuit of optimum benefits for Canadian trade and transportation; to provide professional advice and assistance to the ports; and to administer the divisional ports under its jurisdiction.

The second element in the port system comes under the jurisdiction of the Harbours and Ports Directorate of Transport Canada. It consists of Harbour Commissions, which operate under the authority of the *Harbour Commission Act, 1964* and through which approximately 25% of Canada's waterborne traffic passes. There are nine Harbour Commissions, five in Ontario (Thunder Bay, Windsor, Hamilton, Toronto and Oshawa) and four in British Columbia (Port Alberni, Nanaimo, Fraser River and North Fraser). Harbour Commissions operate independently. Each is under a Board of three to five Commissioners,

some of whom are appointed federally and some municipally, who elect a Board Chairman from among themselves.

The third element of our ports system consists of Public Harbours and Ports, which also come under the jurisdiction of the Harbours and Ports Directorate of Transport Canada; they operate under the authority of the *Public Harbours and Port Facilities Act*. There are wharves, breakwaters and other structures or a declared public harbour at 526 locations across Canada. The geographical dispersal of public ports throughout the regions is as follows: Western, 136; Central, 52; Laurentian, 76; Maritimes, 203; and Newfoundland, 59. Public ports serve 85 communities on the east and west coasts and in the Arctic, which have neither rail nor road access. Public harbours and public ports handle approximately 25% of Canada's marine tonnage.

Clearly, Canada's ports are an integral part of our national transportation system and essential to our export performance and our ability to compete in world markets. Increasingly, our ports are subject to a number of pressures that could affect this ability. Rapidly changing trading patterns, the globalization of the marketplace, and, most particularly, competition from American ports all pose competitive challenges to which our ports must be able to respond in a positive and timely fashion.

NEW ECONOMIC CONDITIONS

The International Cargo Handling Co-ordination Association's (ICHCA) international conference in June of 1992 was on the theme of "Transportation in an Era of International Competitiveness." The restructuring of the world economy, including an overview of emerging transportation patterns, was one issue considered. After the Second World War, there were three "worlds"; the first world (western industrialized nations), the second world (the Soviet Union and its allies) and the third world (the underdeveloped and poor countries). This has changed with remarkable speed; with a few exceptions, all countries are now more or less in the "first world" and are attempting to achieve stable and productive market economies based upon sustainable development and sound environmental practices. It was noted that another aspect of this new world order is the increasing "intrusiveness" of trade on our policies and

economies. Trade in services is rising rapidly and it affects societies much more than trade in goods and commodities.

Another phenomenon of this new world order is the formation of huge trading blocs. The North American and European Community blocks are already established, while in Asia a massive trading bloc led by Japan is beginning to take shape. Though global economic government is still in its infancy, trading blocs are a step in this direction and can have a significant impact on port activity, especially if they are used restrictively.

It was pointed out that container traffic will continue to be vital to the future prosperity of ports and the shipping industry. After spectacular growth in containers and shipping lines over the past 20 years, the industry is beginning to show signs of maturity. East-west container trade will continue to be dominant but will be more important on the Pacific than the Atlantic coast. There will be an abundance of competition, significant consolidation of companies and services, and concentration on cost control, with some improvement in utilization and rates. There will also be an increase in the scope and nature of intramodal and intermodal partnerships. The trend will be towards the "survival of the fittest" --- only the strong and efficient fleets will survive; those that are subsidized and inefficient will not.

As far as the dry bulk trade is concerned, the outlook for growth is considered to be very modest. The commodity mix of grain, iron ore, coal, potash, sulphur, etc. will not change to an appreciable degree. Competition will be strong, with some carrier consolidation, improved fleet utilization, and continuing efforts to get costs under control.

It is expected that the world grain trade will grow at a very modest annual rate (1%) over this decade. Even this conservative forecast is subject to several unknowns. For example, it is impossible to predict what will happen in Russia and in Eastern Europe, and it is very difficult to foresee the future situation in China, although the assumption is that the Chinese will not be able to provide for their growing population. Furthermore, there is the question of how the current round of GATT negotiations will affect the world grain trade. Analysis suggests that west coast ports will be able to capitalize on the modest growth of the grain trade in this decade, while the St. Lawrence Seaway and east coast ports are likely to face contraction.

RECENT INDUSTRY TRENDS

Beginning in the late 1960s, the market for containers and container ships grew at a rapid pace. By the late 1970s, fierce competition and oversupply had resulted in declining freight rates, which throughout the 1980s have been in a free fall. On the North Atlantic alone, in 1992 Liner Conferences sustained losses of between $200 and $300 million. As a result, in this decade new trends will emerge in an attempt to return the industry to profitability and stability.

The first of these trends is the restructuring of individual companies and consolidation. For example, Atlantic Container Lines has been reduced from six owners to a single owner, which allows for more efficient decision-making and improves the ability to respond to competition and to the constantly changing marketplace. The second trend is for container lines to share space and equipment. Thirdly, efforts will be made to streamline the structure of "shipping conferences" (groups of shipping companies that band together in shipping cartels) to allow for more flexibility and efficiency. Finally, there will be even more concentration on shipping containers and the marketing of container services.

In conjunction with restructuring in the shipping industry, integrated intermodal inland transportation systems will be created. Already we see groups of companies comprising liner services, rail and trucking services, logistics, and bulk intermodal distribution centres. The intention is to provide a "seamless" service that is highly integrated and efficient. Rail services have to be viewed in the context of globalization. There are now four kinds of customers: domestic, international, multinational and global. The challenge is to provide more and better services in a cost effective manner.

Finally, another trend within this competitive transportation environment is for the shippers to have increased expectations, which must be met. These expectations are for: timeliness (on time all the time), integration (an integrated approach using a single source carrier but dependent upon an intermodal system), security (guarantee of quantity and quality), flexibility (adaptability to market changes and competition), fast response, value (the best service for the cost), and reliability (a consistently good performance).

Developments in communications and information technology are playing an ever-increasing role in global competition. In the future, low-cost integrated electronic data interchange systems (EDI) using video images and voice commands will be common. Information will become the "ultimate weapon" on which global competition will depend. Only businesses that develop information systems and adjust to change will succeed. This is especially true in the marine industry. Steamship lines are increasingly considering EDI capability as a deciding factor in the choice of a port-of-call or door-to-door routing. Only ports that can respond to these developments will remain competitive into the 21st century.

INTERMODALISM

Intermodalism is the use of more than one transport mode to take goods from the producer to receiver; its success relies on efficient and effective management of the inland sectors. Failure to be competitive in this area has immediate negative consequences for all land parties (e.g., railroads, truckers, freight forwarders, ports) but not for shipping, which, being mobile, has other port options: ports cannot move but shipping lines can. Below, we will examine some of the elements of our intermodal system.

A. Rail

Our three major container ports (Halifax, Montreal and Vancouver) derive most of their container traffic from market areas more than 600 miles away. At these distances, the use of truck transportation is too expensive and rail represents the only effective surface transportation. Therefore, for all practical purposes, the Canadian ports are dependent on fast, efficient, competitively priced rail service to maintain their presence in container markets. This dependence is growing as containerized cargo constitutes an increasing percentage of a port's revenues.

One concern is that if our rail routes are allowed to deteriorate, the competitive position of our ports will also deteriorate. This concern stems from the fact that our rail carriers, which traditionally used east-west routes, have been developing north-south routes into

the United States. If this intensifies, it is feared that our railroads will bypass Canadian ports and divert goods through U.S. ports. In an effort to forestall this possibility, Canada Ports Corporation is working with our two national railroads to develop what is called a "Maple Leaf Route" for goods moving through our ports.

B. Marine

The main issues for the marine community with regard to Canadian ports are difficulties with the inland connectors. Increasingly, a foreign shipping line bases its port of call decision on a port's position within an intermodal route chain. If this is not satisfactory, the shipping line will use another routing and consequently another port, usually an American port. In view of the financial advantages for foreign lines in the U.S., in terms of control and balance of traffic, the Canadian route must promote its advantages while removing all impediments and obstructions to transit. These advantages include the availability of export cargoes (enabling an ocean liner to return with a full load rather than empty), attractive inland freight rates, and expeditious port handling. All of these factors will have to be maintained and enhanced if our ports are to remain competitive.

C. Ports

Studies by Canada Ports Corporation and other bodies show that, for the most part, our ports deliver an acceptable level of service; however, some changes are required to enhance their competitiveness. It is important that the present transfer process be made smoother, impediments (particularly with respect to terminal gate access and truck turnaround times) reduced, and throughput productivity raised.

Canada's ports, especially the container ports of Halifax, Montreal and Vancouver, will need to work even more with their internal partners (Customs, terminal operators, stevedores and other labour organizations) to remain attractive to foreign shipping lines in terms of costs, services and ease of transferring cargo to local area shippers and consignees. In addition, the ports and surface carriers must work together to consolidate and

build additional volumes through increased marketing, joint ventures, business development with the local community and the province, and reliable representation at the national level.

EFFECTS OF TAXATION

The taxation levels currently applied to Canadian rail carriers have contributed to much higher costs and therefore higher tonne-per-mile rates than are charged by their direct competitors in the U.S. The disparity is the result of Canada's considerably higher levels of federal income and property taxes, provincial fuel taxes and different depreciation treatment (longer write-off periods) than are provided in the U.S.

The railways assert that these tax differences are mostly responsible for the operating cost disadvantage for Canada. A container train moving from Vancouver to Toronto pays 71% more tax per container-mile than a comparable container train moving between Seattle and Chicago. The result has been that cross-border carriers attempt to limit the extent of their Canadian operations, a decision that directly reduces Canadian port volumes.

We cannot claim, however, that with the same taxes Canadian carriers would enjoy parity with or advantage over their U.S. counterparts. Other factors in Canadian transportation also raise operating costs and prejudice rate levels. Examples are our geography, heavier low-revenue traffic, lighter volume densities and the lack of direct investment by shipping lines. Nevertheless, cost inequities would be considerably reduced by more reasonable taxation.

In its review of the *National Transportation Act, 1987*, the National Transportation Act Review Commission found that all Canadian transportation modes were more highly taxed than their counterparts in the United States. On that basis, the Commission recommended that all levels of government adopt taxation policies and rates that do not compromise the ability of Canadian carriers to compete in domestic and international markets. In Canada, the rail industry and other modes of transportation require this form of fiscal relief to preserve routings and ensure that goods are moved through Canadian ports and not diverted through U.S. gateways.

COMPETITION OUTSIDE AND INSIDE CANADA

Competition among North American ports is inevitable as trade patterns shift with changes in transportation and logistical methods of moving cargo. A port's hinterland seldom remains stable and consistent. Ports working in concert with their landside partners, such as truck and railway companies, have been increasing their competitive position in markets at considerable distances away.

As noted earlier, our ports face the constant threat of having traffic diverted through U.S. ports. This is especially true with container traffic, which, since it consists of easily handled, standardized boxes of higher value cargoes, can be quickly and easily shifted from one port to another. Both Canadian and American cargoes have been routed through the other country's ports since the early days of containers. Because, however, there is 10 times as much liner activity at U.S. ports than at Canadian ports, the impact of diversion is far more significant in this country.

Another potential source of competition from U.S. ports is for cargoes such as lumber, potash, coal and grain, even though the volumes of Canadian bulk export cargoes diverted through U.S. ports are not yet considered great. Canadian ports are working with inland transportation carriers and terminal operators to try and keep costs down and provide efficient service to prevent loss of such cargoes to U.S. ports.

There is also competition among ports within Canada, which varies depending on the port administration involved. Ports Canada views some rivalry between ports and terminals within the Ports Canada system to be healthy, because competition ensures that users have the best possible service at the lowest possible cost.

Another form of Canadian port competition is between Ports Canada ports and those under Transport Canada (Public Ports and Harbours plus Harbour Commissions). Each case of such competition is unique, depending on the cargo involved. The most glaring competitive difference is the lack of full cost recovery associated with Transport Canada's facilities. Ports Canada is undertaking a study of the more serious cases of this competition to identify the major competitive differences in each case.

CONCLUSION

The above describes the present situation of Canada's port system. As noted, our ports, though for the most part offering good, efficient service to the customer, still face stiff competition from their American counterparts. Canadian ports are part of a North American context and as such must compete within the continental economy as a whole. The challenge will be to enhance our competitiveness by improving efficiency through a more integrated and coordinated landside system offering shippers a viable Canadian intermodal option. This will require implementation of those measures discussed above, such as taxation relief for our inland carriers, cessation of inefficient competition among ports, provision of attractive inland freight rates and enhanced EDI capabilities. In the previous Parliament, the House of Commons Standing Committee on Transport proposed undertaking a comprehensive review of the administration, structure and competitiveness of the Canadian ports system. Such a study might help identify solutions that will enable our ports to compete effectively in the North American marketplace.

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